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BEFORE THE ARIZONA CORPORATION COMMISSION

GARY PIERCE
Chairman

Arizona Corporation Commission

BOB STUMP

DOCKETED

Commissioner

OCT 14 2011

SANDRA D. KENNEDY

Commissioner

PAUL NEWMAN

Commissioner

BRENDA BURNS

Commissioner

DOCKETED BY

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SAHUARITA WATER COMPANY, L.L.C.
FOR AN OPINION AND ORDER OF THE
COMMISSION (i) DETERMINING THE
FAIR VALUE OF THE UTILITY
PROPERTY FOR RATEMAKING
PURPOSES, (ii) FIXING A JUST AND
REASONABLE RATE OF RETURN
THEREON, (iii) APPROVING RATES AND
CHARGES DESIGNED TO PRODUCE
REVENUES SUFFICIENT TO RECOVER
COST OF SERVICE AND AUTHORIZED
RATE OF RETURN, AND (iv) PROVIDING
FOR THE RECOVERY OF CERTAIN
FINANCINGS AND OPERATING
EXPENSES THROUGH A SURCHARGE
AND A PASS-THROUGH TARIFF,
RESPECTIVELY

DOCKET NO. W-03718A-09-0359

DECISION NO. 72635ORDER

Open Meeting
October 11 and 12, 2011
Phoenix, Arizona

BY THE COMMISSION:

FINDINGS OF FACTIntroduction

1. On August 24, 2011, pursuant to Decision No. 72177 (February 11, 2011), Sahuarita Water Company, L.L.C. ("Sahuarita" or "Company") filed with the Arizona Corporation Commission ("Commission") the Company's proposed Central Arizona Groundwater Replenishment District ("CAGR") adjustor fees.

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2. Decision No. 72177 authorized the Company to implement an adjustor mechanism, subject to certain conditions, to recover the costs paid to the CAGRD for replenishment of excess groundwater.

3. The conditions require the Company to submit, by August 25 of each year, for Commission consideration, its proposed CAGRD fees for the next twelve-month period (along with documentation from the relevant state agencies to support the calculations), to apply to all water sold after October 1.¹

4. Accordingly, the Company made the instant filing.

Background

5. The CAGRD was established by the Arizona legislature to serve as a groundwater replenishment entity for its members and provides a mechanism for designated water supply providers such as Sahuarita to demonstrate a 100-year water supply.

6. Members pay the CAGRD to replenish any groundwater pumped by the member that exceeds the specified pumping limits.

7. The CAGRD is recognized as an important tool in Arizona's groundwater conservation efforts.

Annual Membership Dues

8. Subsequent to the implementation of the Company's initial adjustor, the Arizona legislature enacted Arizona Revised Statutes § 48-3779, which authorized the CAGRD to charge annual membership dues ("AMDs") "on all parcels of member lands and on all municipal providers having a member service area," in addition to the charges for replenishment of excess groundwater.

9. The sole purpose of the AMDs is "to pay costs associated with the acquisition, lease or exchange of water or water rights and development of infrastructure necessary for the district to perform its replenishment obligations."²

¹ Dec. No. 72177 at 39, Condition Nos. 1 and 7.

² Arizona Revised Statutes § 48-3779(B).

1 10. On May 5, 2011, a meeting was held at the Commission's offices, attended by
2 members of CAGRDR staff, Commission Utilities Division ("Staff"), Sahuarita and Johnson
3 Utilities, LLC dba Johnson Utilities Company ("Johnson").³ CAGRDR staff presented the AMD
4 policy, the methodology in which it is calculated and the timing of the charges (the AMDs are
5 included as a line item on the annual invoice, along with the assessment for excess groundwater).

6 11. As noted by the Commission in Decision No. 71854 regarding approval of the
7 replenishment assessment, "Conservation and wise stewardship of increasingly stressed water
8 supplies is a matter of paramount concern in Arizona, and we believe that it is important to send
9 appropriate signals to water companies regarding their duty to fully engage in conservation
10 programs administered by the ADWR."⁴ And, like the already-approved CAGRDR fees, the AMDs
11 are not discretionary for the designated provider.

12 12. Therefore, Staff concludes that the inclusion of the AMDs in the calculation of the
13 CAGRDR adjustor is appropriate and in the public interest.

14 **Calculation of the CAGRDR Adjustor Fees**

15 13. Condition No. 6 ordered that the adjustor fees be calculated as follows: "The total
16 CAGRDR fees for the most current year . . . shall be divided by the gallons sold in that year to
17 determine a CAGRDR fee per 1,000 gallons."⁵

18 14. Condition Nos. 2 and 3 ordered that the Company "place all CAGRDR monies
19 collected from customers in a separate, interest bearing account," only to be withdrawn for the
20 annual payment to the CAGRDR, due on October 15 of each year.⁶

21 15. In addition, although the order did not contain an explicit provision for a true-up,
22 the parties were in agreement that such an annual true-up would occur at the time of the adjustor

23 . . .

24 . . .

26 ³ As designated providers with member service areas, both Sahuarita and Johnson are subject to the newly-imposed membership dues.

27 ⁴ Dec. No. 71854 (issued Aug. 25, 2010, Docket No. WS-02987A-08-0180) at 43:23-44:2.

28 ⁵ Dec. No. 72177 at 41.

⁶ *Id.* at 39.

1 reset each year. This understanding was confirmed by the Commission's provision for a true-up in
2 Decision No. 72204.⁷

3 16. The Company proposes a rate of \$0.794 per thousand gallons ("kgal").

4 17. Staff reviewed the Company's proposed calculations and the supporting
5 documentation submitted with its request. Staff generally agrees with the methodology employed
6 by the Company to calculate the true-up and the proposed adjustor rate; however, Staff disagrees
7 with the collection period used by the Company in its calculation.

8 18. Decision No. 72204 (issued March 3, 2011) set the Company's initial adjustor rate
9 at \$0.394 per kgal and authorized the Company to begin its initial collection period for the adjustor
10 on March 1, 2011, which would apply the rate to gallons sold during the month of February.

11 19. Recognizing that this start date would not provide for a full twelve months in the
12 initial recovery year, the Commission directed that "any under collection in the initial year should
13 be included in the amount recognized for recovery in the following year."⁸ However, Decision
14 No. 72204 mistakenly stated that the March 1 start date would only allow for seven months of
15 recovery when, actually, it would allow for eight months.⁹

16 20. Consequently, in reporting the amount of fees collected, the Company used a seven-
17 month recovery period as follows: actual collections from March through July 2011, estimated
18 collections for August 2011 based on amount billed, and estimated collections for September 2011
19 based on gallons sold in August 2010.

20 21. As the new adjustor rate will be effective for all water sold after October 1, the
21 calculation should have included an estimate for October collections based on gallons sold in
22 September.

23 22. The Company's use of a shortened collection period results in a slight
24 understatement of the total estimated fees collected.

25 ...

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27 ⁷ Dec. No. 72204 at 2:3-6.

28 ⁸ *Id.*

⁹ The adjustor fees would apply to all water sold in the months of February through September, with
collections during the months of March through October.

23. Consequently, Staff provided its calculation and recommended rates for Sahuarita's CAGR D adjustor fees, as described below.

True-up

24. The CAGR D invoice to Sahuarita for the 2009 annual replenishment assessment was \$200,489.

25. Sahuarita reports that, as of September 30, 2011, the Company will have total estimated collections and interest of \$110,124.¹⁰ Staff has additionally calculated an estimate for the month of October by applying the present adjustor rate of \$0.394 per kgal to the Company's water sales during September 2010.

26. This true-up calculation indicates an over-collection of approximately \$74,933, as follows:

A	2009 CAGR D invoice	\$200,489	
B	Collections and interest through Sept. 2011	110,124	
C	October collections (estimated)	<u>15,432</u>	39,167 kgal ¹¹ x \$0.394/kgal
D	Total collections for 2009	125,556	
E	2009 CAGR D over/(under) collected [D-A]	\$(74,933)	

Adjustor Fee

27. The CAGR D invoice to Sahuarita for 2010 indicates total fees and dues of \$263,830.

28. The Company's 2010 annual report as submitted to ADWR indicates annual water sales of 1,369.64 af, or 446,299 kgal.¹²

29. Staff's calculation of the new CAGR D adjustor fee is shown below. The fee is \$0.76 per kgal.

A	2010 CAGR D invoice	\$263,830
B	Plus under-collection for 2009	<u>74,933</u>
C	Amount to be recovered [A + B]	338,763
D	Total kgal sold in 2010	446,299
E	Charge per kgal [C ÷ D]	\$0.76

¹⁰ Company's application dated Aug. 24, 2011, Exhibit #1.

¹¹ Per the Company's 2010 annual report to ADWR: 120.2 acre-feet ("af") sold x 325.851 kgal/af = 39,167 kgal sold.

¹² 1,369.64 af x 325.851 kgal/af = 446,299 kgal.

Filing Dates

30. The conditions set forth in Decision No. 72177 established certain dates regarding the CAGR D adjustor. As previously noted, the Company is required to file for its annual adjustor re-set by August 25 each year and the new adjustor rate is applicable to all water sold after October 1. Additionally, Condition No. 4 requires the Company to file a semi-annual report due during the last week of October and the last week of April of each year, detailing the CAGR D fees collected and assessments paid.¹³

31. Since the adjustor was a newly-created mechanism for both Sahuarita and Johnson, the current reset applications are the first to be submitted. Upon review of the submissions, Staff now has some concerns regarding the appropriateness of the filing dates. Staff originally recommended the August 25 date to correspond to the CAGR D's invoicing of its members. However, as is apparent from the calculations, filing on that date requires the Company to estimate several months of collections and essentially necessitates a "true-up" of the true-up in the following year. Also, it may be more efficient to time the filing of the semiannual report to coincide with the reset filing.

32. Therefore, Staff intends to meet with both Sahuarita and Johnson to discuss alternatives that might streamline the process and eliminate the use of estimates in the calculations. If it is determined that changes to the conditions in the original order are appropriate, Staff will bring those recommendations to the Commission at a later date.

Conclusions and Recommendations

33. Staff concludes that the Company has duly filed the appropriate request to revise the CAGR D adjustor fees, as required by Decision No. 72177.

34. Staff concludes that inclusion of the AMDs in the calculation of the CAGR D adjustor fees is appropriate.

35. Staff recommends approval of the CAGR D adjustor fees as described herein.

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¹³ Dec. No. 72177 at 39.

39. We find that Staff's conclusions and recommendations are reasonable and should be adopted.

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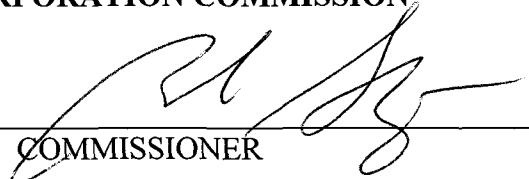
1 IT IS FURTHER ORDERED that Sahuarita Water Company, LLC docket with the
2 Commission as a compliance matter, within seven (7) days of the effective date of this Decision, a
3 CAGR adjutor fee tariff consistent with the rates approved herein.

4 IT IS FURTHER ORDERED that Sahuarita Water Company, LLC shall notify its
5 customers of the CAGR adjutor fees approved herein within 30 days of the effective date of this
6 Decision.

7 IT IS FURTHER ORDERED that this Decision shall become effective immediately.

8
9 **BY THE ORDER OF THE ARIZONA CORPORATION COMMISSION**

10 
11 CHAIRMAN

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13 COMMISSIONER

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15 COMMISSIONER

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17 COMMISSIONER

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19 COMMISSIONER

20 IN WITNESS WHEREOF, I, ERNEST G. JOHNSON, Executive
21 Director of the Arizona Corporation Commission, have hereunto, set
22 my hand and caused the official seal of this Commission to be
23 affixed at the Capitol, in the City of Phoenix, this
24 14th day of October, 2011.

25 
26 ERNEST G. JOHNSON
27 EXECUTIVE DIRECTOR

28 DISSENT: _____

DISSENT: _____

SMO:NLS:lh\RM

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